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TO: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **REVIEW OF MULTICULTURAL SERVICE CENTER – A FOSTER
FAMILY AGENCY FOSTER CARE CONTRACTOR**

Attached is our report on Multicultural Service Center (Multicultural or Agency) fiscal operations for the period January 1, 2002 through December 31, 2002. Multicultural is licensed to operate a Foster Family Agency (FFA) and, for the period of our review, had 44 children placed in 16 certified homes. The Agency is also a subcontractor to the Institute for Black Parenting providing Family Preservation Program services such as individual and family counseling. During our review period, Multicultural received \$1,024,127 from Los Angeles County in foster care funds. Multicultural paid \$421,403 of this amount directly to foster parents. The Agency is located in the Fourth Supervisorial District.

Scope

The purpose of our review was to ensure that Multicultural has complied with the contract and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures in providing services to children placed in the Agency's care. We also evaluated the adequacy of Multicultural's accounting records, internal controls, and compliance with applicable federal, State and County fiscal guidelines governing the disbursement of FFA foster care funds.

Summary of Findings

We identified \$19,463 in expenditures that are not supported or inadequately supported by original receipts. In addition, we found a substantial amount of reserve funds

accumulated by the Agency, which we believe is unreasonable and should be disclosed to the Department of Children and Family Services (DCFS). DCFS should determine whether such an accumulation of funds has adversely affected the quality of care and services provided to children placed in the Agency's care and whether any of these funds should be returned to DCFS. If the funds are left with Multicultural, they should develop a plan, to be approved by DCFS, to expend these funds for the benefit of the children. We also noted that Multicultural needs to strengthen internal controls over fixed assets, bank reconciliations and allowance logs. Details of our findings are discussed in the attached report.

We have recommended that DCFS resolve the unsupported/inadequately supported expenditures and, if appropriate, collect all disallowed amounts. In addition, DCFS must ensure that Multicultural's management takes the appropriate corrective actions to address the recommendations in this report. Finally, DCFS must monitor to ensure that the corrective actions taken result in permanent changes.

Review of Report

We discussed our report with Multicultural's management on November 3, 2003. They have agreed to provide DCFS with a written response and corrective action plan within 30 days of the report date. In addition, DCFS has agreed to provide my office with a written response within 60 days detailing the resolution of all findings contained in the report. We thank Multicultural's management and staff for their cooperation during our review.

If you have any questions, please contact me, or have your staff contact DeWitt Roberts at (626) 293-1101.

JTM:DR:RL
Attachment

c: Chief Administrative Office
David E. Janssen, Chief Administrative Officer
Claudine Crank, Budget & Operations Management Branch
Department of Children and Family Services
David Sanders, Ph.D., Director
Angela Carter, Deputy Director, Bureau of Administration
Genevra Gilden, Chief, Quality Assurance Division
Multicultural Service Center
Dr. Ernest Nunez, Executive Director
Board of Directors
California Department of Social Services
Cora Dixon, Chief, Foster Care Audit Bureau
Sheilah Dupuy, Chief, Foster Care Rates Bureau
Public Information Office
Audit Committee
Commission for Children and Families

MULTICULTURAL SERVICE CENTER
REVIEW OF FOSTER FAMILY AGENCY CONTRACT

BACKGROUND

The Department of Children and Family Services (DCFS) contracts with Multicultural Service Center (Multicultural or Agency), as a Foster Family Agency (FFA), to recruit, certify, train and support foster family homes and to provide treatment and support services for DCFS children placed in these homes. The Agency is also a subcontractor to the Institute for Black Parenting providing Family Preservation Program services such as individual and family counseling. During our review period of January 1, 2002 through December 31, 2002, Multicultural had 44 children placed in 16 certified homes. Multicultural is located in the Fourth Supervisorial District.

Under the provisions of the contract, the County pays Multicultural a monthly rate for each child, based on the FFA Annual Treatment Rate determined by the California Department of Social Services (CDSS). For our review period, Multicultural received a monthly rate between \$1,589 and \$1,865 per foster child and the Agency received a total of \$1,024,127 in FFA funds from Los Angeles County.

CDSS has also established minimum amounts the FFA is required to pay certified foster parents. Effective January 1, 2002, the FFA is required to pay a monthly rate between \$624 and \$790 per child, based on the age of the child. During the period of our review, Multicultural paid a total of \$421,403 to foster parents.

APPLICABLE REGULATIONS AND GUIDELINES

Multicultural is required to operate its FFA in accordance with certain federal, State and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our review:

- FFA Contract, including Exhibit D, Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122 (Circular), Cost Principles for Non-Profit Organizations
- California Department of Social Services Manual of Policies and Procedures (CDSS- MPP)
- California Code of Regulations, Title 22 (Title 22)

RESERVE FUNDS

According to section 13 of the Contract, reasonable funds may be rolled over between fiscal years as a prudent reserve. Multicultural began its operations in April 1995 and has since accumulated \$1,415,378 in reserve funds. As of December 31, 2002, the Agency's audited financial statements revealed \$1,245,317 in cash and cash equivalents. Further review indicated that the money was placed in seven Certificate of Deposit (CD) accounts and one checking account. In addition, the Agency has \$170,061 in an investment account. The substantial accumulation of these funds began in 1998 through 2002 when the Agency's average net profit was \$267,936 per year. The total accumulated fund of \$1,415,378 is approximately one and a half times the Agency's annual FFA revenue and appears to be an unreasonable amount to hold in reserve. DCFS should determine whether such an accumulation of funds has adversely affected the quality of care and services provided to children placed in the Agency's care and whether any of these funds should be returned to DCFS. If the funds are left with Multicultural, they should develop a plan, to be approved by DCFS, to expend these funds for the benefit of the children.

Recommendations

- 1. DCFS management determine whether the substantial accumulation of reserve funds by Multicultural has adversely impacted the quality of care and services provided to children and if any of these funds should be returned to DCFS.**
- 2. If these funds are left with the Agency, Multicultural management should develop a plan, to be approved by DCFS, to expend these funds for the benefit of the children.**

ALLOCATION OF COSTS

The A-C Handbook indicates that contractors shall maintain a general ledger for all assets, liabilities, fund balances, revenues and expenditures. In addition, the A-C Handbook states that, if contractors provide services in addition to the services required under contract, the contractor shall allocate expenditures that benefit programs or funding sources on an equitable basis.

Multicultural operates two distinct programs, the FFA Program and the Family Preservation Program. The Family Preservation Program is a State funded program which tries to prevent or limit the unnecessary placement of children in out of home care.

Our review of the Agency's general ledger disclosed that the Agency does not separately account for each program's expenditures in the general ledger. Rather, the amounts are commingled. By separately accounting for each program, Multicultural and the County can better determine the disposition and status of program funds.

Recommendation

- 3. Multicultural management develop a cost allocation plan and allocate the expenditures between the FFA program and the Family Preservation Program.**

REVIEW OF EXPENDITURES

Our review disclosed a total of \$19,463 in unsupported/inadequately supported expenditures. Details of these expenditures are discussed below.

Unsupported/Inadequately Supported Expenditures

Per A-C Handbook, all revenues and expenditures shall be supported by original vouchers, invoices, receipts, cancelled checks or other documentation. Unsupported expenditures will be disallowed on audit. Our review identified the following:

- \$18,420 in clothing allowances that were not supported by receipts. The Agency provided a clothing allowance log and cancelled checks to indicate payments made to the foster parents. However, the log was not complete and showed fewer payments made to the foster parents than the general ledger had indicated. In addition, the Agency did not provide any receipts to support the purchase of clothing for the children.
- \$890 paid to the Executive Director for reimbursement of medical and dental insurance expense. During our review period, the Executive Director did not receive medical and dental insurance coverage from the Agency. However, he reimbursed himself \$1,200 for insurance expense that was covered by his wife's insurance policy. His wife pays \$51.66 per month for family coverage, which also covers the Executive Director. The Executive Director's monthly share should be half of the amount paid or \$25.83 per month. Therefore, the entitled amount of reimbursement should be \$310 per year (\$25.83 per month multiplied by 12 months). We question the \$890 difference between the amount the Executive Director was reimbursed and the cost of the insurance.
- \$153 in credit card expenditures that were not supported by receipts or invoices. The A-C Handbook states that all credit card disbursements must be supported by original invoices, store receipts or other external authenticating documents indicating the item purchased and the employee making the purchase. Credit card statements are not sufficient support for credit card purchases.

Recommendation

4. DCFS management resolve the \$19,463 in unsupported/inadequately supported expenditures and, if appropriate, collect any disallowed amounts.

In order to demonstrate the ability to appropriately account for foster agency funds and administer the program in compliance with the terms of their agreement with the County, Multicultural should implement the following recommendations:

Recommendation

5. Multicultural management maintain adequate supporting documentation for all FFA expenditures, including original itemized invoices and receipts.

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

Our review disclosed several contract compliance issues and internal control weaknesses. DCFS should ensure that Multicultural's management takes appropriate corrective actions to address each of the internal control recommendations in this report. DCFS should also monitor this contractor to ensure the corrective actions result in permanent changes.

Inadequate Accounting & Disbursement Procedures

Accountability for Fixed Assets

The A-C Handbook states that each contractor shall maintain a current listing of its fixed assets and that an inventory of fixed assets should be performed, at least annually, to ensure that all fixed assets are accounted for. During our review we noted that the Agency does not have a fixed asset inventory listing. A schedule of fixed assets should contain the item description, serial number, date of purchase and acquisition cost. We also recommend that the Agency conduct an inventory of fixed assets at least once each year as required by the A-C Handbook.

Bank Reconciliations

Section 4.011 of the A-C Handbook states that bank reconciliations should be prepared within 30 days of the bank statement date and signed and dated by both the preparer and the reviewer. The Agency's Executive Director informed us that monthly bank reconciliations were not prepared. Monthly bank reconciliations should be prepared and reviewed by the Agency's management to reconcile their bank balance to their book balance, and to identify and investigate issues such as outstanding checks that

have not cleared the bank within a reasonable amount of time. Bank reconciliations are also necessary to verify the accuracy of the accounting records.

Allowance Logs

According to section 8.2 of the Contract's Statement of Work, "CONTRACTOR" shall monitor for compliance that the certified foster parent maintains a log indicating the date, the amount of allowance the placed child receives and the placed child's signature (when age appropriate) upon receipt of allowance. The logs are to be given to the social workers and placed in the foster child's file. We reviewed the allowance logs for the period of July 2002 through December 2002 for 15 foster children and noted the following:

- Twelve (13%) of the 90 monthly allowance logs were not in the child's folder.
- Four (4%) of the 90 monthly allowance logs indicated that one foster child, on four of these logs, received an allowance that was lower than the required amount.

Invoices Not Marked "Paid"

Section B.2.1 of the A-C Handbook states that all supporting documentation shall be referenced to check numbers and marked "paid" or otherwise cancelled to prevent reuse or duplicate payments. During our review of Multicultural's expenditures, we found 15 (58%) of 26 sampled items in which the supporting documentation was not marked "paid" or otherwise cancelled and the check number was not referenced to the supporting documentation.

Recommendations

Multicultural management:

- 6. Prepare a fixed asset report that includes the item description, serial number, date of purchase and acquisition cost of \$1,000 or more as required by the A-C Handbook.**
- 7. Perform a physical inventory of all fixed assets, at least annually, to ensure that all fixed assets are accounted for.**
- 8. Prepare bank reconciliations and ensure that they are reviewed and approved by management on a monthly basis and that all reconciliations are dated and signed by the preparer and reviewer.**
- 9. Ensure that children are paid the correct allowances and allowance logs are in compliance with Contract requirements.**

10. Ensure that all supporting documentations are referenced to check numbers and marked “paid” or otherwise cancelled to prevent reuse or duplicate payments.